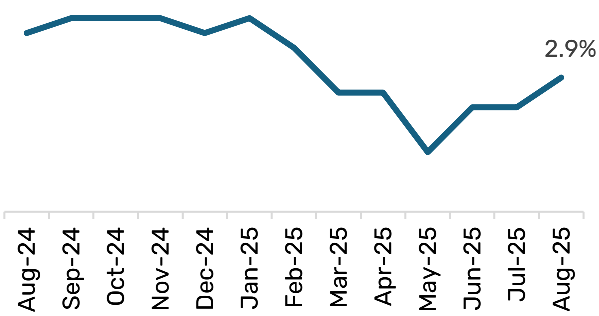
BAJAJ FINSERV

Rate cut: To be or not to be?

What may shape tomorrow's Fed decision

US Inflation rose to 2.9%

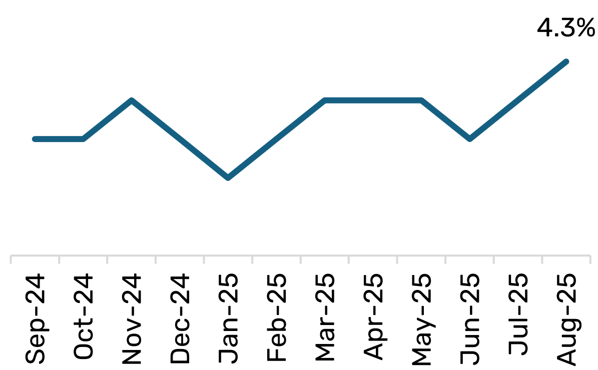


Source: U.S Bureau of Labor Statistics
Data as on 31st August 2025.

- Tariffs are resurfacing as a key driver, with **higher import costs** increasingly passing through to consumer prices.
- **CPI has inched up in recent months**, with food and energy leading the rise.
- Additional tariff measures could intensify pressures, **pushing inflation beyond current levels.**
- **US CPI is projected at 2.8–3.3% in 2025**, staying well above the Fed's 2% target.

- **The U.S. unemployment rate rose to 4.3%** in August, marking the third consecutive monthly increase.
- Only **22,000 jobs were added** in August and **job openings dropped** to about 7.2 million in July, continuing a steady decline.
- **Wage growth slowed**, with average hourly earnings up 3.7% year-on-year, down from 3.9%.
- **Rising jobless claims, fewer quits, and sector-specific layoffs** further point to a **softening labor market.**

US Unemployment Rate highest since Oct 2021



Source: U.S Bureau of Labor Statistics
Data as on 31st August 2025.

Dovish Camp
Supporting a rate cut

- The first rate cut in September is expected to counter the projected slowdown in GDP and rising unemployment.
- Willing to accept USD weakness to support growth.
- Tariffs seen as weighing on demand and dampening consumer sentiment.

Cautious Camp
Using the wait & see approach

- Keep rates steady until the inflation cools.
- Tariffs may keep prices elevated, and cutting rates now may risk further inflation.
- Concerned more about the over-weakening of the USD, fueling imported inflation and eroding of purchasing power.

Source: Bloomberg, Federal Reserve Board and Internal Analysis.